

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2018/2019

**BEC1034 – MICROECONOMICS**

(All sections / Groups)

13 OCTOBER 2018

2.30 p.m. - 4.30 p.m.

(2 Hours)

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### INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TEN (10)** printed pages with:  
**Section A:** Forty (40) multiple choice questions (40 marks)  
**Section B:** Three (3) structured questions (60 marks)
2. Answer **ALL** questions.
3. Answer **Section A** in the multiple-choice answer sheet provided and **Section B** in the answer booklet provided.
4. Marks are shown at the end of each question.

**SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)**

There are **FORTY (40)** questions in this section. Answer **ALL** questions on the multiple choice answer sheet.

1. Scarcity is a problem
  - a. measured by the amount of goods available.
  - b. of the poor, but not the rich.
  - c. because human wants are unlimited while resources are limited.
  - d. only in industrialized economies.
2. Which of the following is not a resource?
  - a. Land.
  - b. Labour.
  - c. Money.
  - d. Capital.
3. The subject of economics is primarily the study of
  - a. the government decision-making process.
  - b. how to operate a business successfully.
  - c. decision-making because of the problem of scarcity.
  - d. how to make money in the stock market.
4. Microeconomics is concerned with
  - a. some specific market in the economic system.
  - b. the entire economic system.
  - c. reducing national unemployment and inflation rates.
  - d. what causes changes in the overall level of economic activity.
5. When building a model, an economist must
  - a. collect accurate data.
  - b. provide a complete description of reality.
  - c. make simplifying assumptions.
  - d. develop a set of behavioural equations.
6. Which of the following is a statement of positive economics?
  - a. Government control of rent is a fair way to help poor people afford housing.
  - b. Government control of rent keeps landlords from charging too much rent.
  - c. Government control of rent decreases the number of new apartments constructed.
  - d. Government control of rent is injustice.

**Continued...**

7. Which of the following would shift the demand curve for 35mm film to the right?
- A fall in the price of 35mm film.
  - A fall in the price of 35mm cameras.
  - A fall in the consumers' incomes.
  - A fall in the popularity of photography.
8. Farmers can produce wheat and/or rice. What will happen in the wheat market if there is an increase in demand for rice?
- Wheat supply will increase.
  - Wheat supply will decrease.
  - Wheat demand will increase.
  - Wheat demand will decrease.

Refer to **Table 1** to answer question 9 and 10.

**Table 1**

Price of ice cream (RM)	Quantity demanded of ice cream (cones)	Quantity supplied of ice cream (cones)
1.00	250	150
1.50	200	200
2.00	150	250
2.50	100	300

9. In **Table 1**, the equilibrium price and quantity in the ice cream market are
- RM 1.00, 200 cones.
  - RM 1.50, 400 cones.
  - RM 2.00, 100 cones.
  - RM 1.50, 200 cones.
10. In **Table 1**, at a price of RM 2.00, the market will experience a
- shortage of 150 cones of ice cream.
  - surplus of 100 cones of ice cream.
  - shortage of 100 cones of ice cream.
  - market equilibrium.
11. A price floor is
- the lowest price a producer will accept.
  - the lowest price a consumer will pay.
  - a minimum price set by the government above equilibrium price.
  - a maximum price set by the government above equilibrium price.

**Continued...**

12. Price ceilings are imposed if the government believes
  - a. the market will not achieve an equilibrium price.
  - b. the market equilibrium price is too low.
  - c. an excess supply of the product exists.
  - d. the market equilibrium price is too high.
13. Which of the following would generate positive externalities?
  - a. Flu vaccinations.
  - b. Cigarettes smoking in elevators.
  - c. Farmers' use of pesticides.
  - d. Trash left at the beach side.
14. If Jasper, the hair stylist, raises the price of his cuts from RM13 to RM15 and finds the number of hair cuts falls from 300 to 260, then the demand for Jasper's cuts in this range is
  - a. price inelastic.
  - b. price elastic.
  - c. unit elastic.
  - d. income inelastic.
15. Firms would like to know the price elasticity of demand for their products because it helps determine the effect of price changes on the firms'
  - a. property taxes.
  - b. competitors' profits.
  - c. quantity supplied.
  - d. revenues.
16. In the long run, price elasticities of demand are usually
  - a. less than they are in the short run because people can adjust.
  - b. greater than they are in the short run because consumers have time to adjust.
  - c. the same as they are in the short run because tastes don't change.
  - d. greater than they are in the short run because prices rise over time.
17. Which of the following is *true* for a lower price elasticity of demand coefficient?
  - a. The market is narrowly defined.
  - b. The quantity demanded is more responsive.
  - c. Few substitutes exist.
  - d. Many substitutes exist.
18. Fred's consumer optimum occurs whenever
  - a. he spends all of his income.
  - b. he allocates his income such that his satisfaction is maximized.
  - c. the slopes of all of his demand curves are equal.
  - d. he purchases the goods he needs.

Continued...

19. When economists speak of normal goods, they mean goods for which
  - a. marginal utility is constant.
  - b. marginal utility is positive.
  - c. demand decreases when income increases.
  - d. demand increases when income rises.
20. If all prices fall by 5 percent and money income remains constant, the new budget line will have
  - a. a positive slope.
  - b. the same slope.
  - c. a steeper slope.
  - d. a flatter slope.
21. Green bikes and yellow bikes are perfect substitutes. Their indifference curves
  - a. are horizontal.
  - b. intersect each other.
  - c. are vertical.
  - d. have constant slope.
22. Unlike implicit costs, explicit costs
  - a. reflect opportunity costs.
  - b. include the value of the owner's time.
  - c. are not included in the accounting statement of the firm.
  - d. are actual cash payments.
23. If a firm has total revenue of RM 200 million, explicit costs of RM 190 million, and implicit costs of RM 30 million, its economic profit is
  - a. RM 200 million.
  - b. RM 10 million.
  - c. - RM 10 million.
  - d. - RM 20 million.
24. In the long run, total fixed cost
  - a. falls.
  - b. rises.
  - c. is constant.
  - d. does not exist.
25. Which of the following *best* illustrates a perfectly competitive market?
  - a. Soft drinks.
  - b. Automobiles.
  - c. Electric power.
  - d. Soybean farmers.

Continued...

26. A competitive firm is a price taker, it faces a demand curve that is
  - a. perfectly elastic.
  - b. perfectly inelastic.
  - c. relatively elastic.
  - d. relatively inelastic.
27. A perfectly competitive firm in the long run can earn
  - a. positive economic profits.
  - b. negative economic profits.
  - c. zero economic profits.
  - d. all of the above are possible.
28. By producing at the point where marginal revenue equals marginal cost, the firm
  - a. is guaranteed a profit.
  - b. will earn a profit of zero.
  - c. will maximize revenue.
  - d. will maximize profit.
29. Under monopoly, a firm
  - a. is a price taker.
  - b. maximizes profit by setting marginal cost equal to marginal revenue.
  - c. will shut down in the short run if price falls short of average total cost.
  - d. always earns a positive economic profit.
30. A monopolized market is characterized by
  - a. many sellers who sell unique products.
  - b. very strong barriers to entry.
  - c. firms follow market price.
  - d. mutual interdependence.
31. An example of price discrimination is the price charged for
  - a. an economics textbook at a campus bookstore.
  - b. petrol.
  - c. cinema tickets that offer lower prices for children.
  - d. a postage stamp.
32. In the long run, both monopolistic competition and perfect competition result in
  - a. a wide variety of brand name choices for consumers.
  - b. an efficient allocation of resources.
  - c. zero economic profit for firms.
  - d. excess capacity.

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33. Monopolistic competition is inefficient because
- firms earn positive economic profits.
  - the firms' marginal costs and marginal revenues are not equal.
  - firms have excess capacity in the long run.
  - entry is difficult.
34. Which of the following is always associated with monopolistic competition?
- identical products.
  - economic profits in the short run.
  - demand curves become more inelastic as new entry occurs.
  - product differentiation.
35. An oligopoly is a market structure in which
- one firm has 100 percent of a market.
  - there are many small firms.
  - there are many firm with no control over price.
  - there are few firms selling either a homogeneous or differentiated product.
36. When Pepsi is considering a price hike, it needs to consider how Coke may react. This situation is called
- mutual interdependence.
  - price leadership.
  - collusion.
  - cartel.
37. Cartel pricing refers to the output and price choice of a cartel. This choice most closely resembles that of a
- monopolistically competitive industry.
  - duopoly.
  - monopoly.
  - more competitive industry.
38. Troll Corporation sells dolls for RM 10.00 each in a market that is perfectly competitive. Increasing the number of workers from 100 to 101 would cause output to rise from 500 to 550 dolls per day. The marginal revenue product for the 101<sup>st</sup> worker is
- RM 10.00.
  - RM 500.00.
  - RM 5000.00.
  - RM 1010.00.

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39. The demand for labour is
- derived demand.
  - featherbedding demand.
  - marginal demand.
  - kinked demand.
40. A technological advance that increases the productivity of teachers can be expected to have what effects on the equilibrium labour market for teachers?
- Wages will rise, and quantity of teachers will fall.
  - Wages will rise, and quantity of teachers will rise.
  - Wages will fall, and quantity of teachers will fall.
  - Wages will fall, and quantity of teachers will rise.

[Total: 40 marks]

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**SECTION B: STRUCTURED QUESTIONS (60 Marks)**

There are THREE questions in this section. Candidates MUST answer ALL questions.

**Question 1**

Read the following passage.

**Hike in Egg Price**

PETALING JAYA: The recent increase in the price of chicken eggs is unavoidable as farmers need to cope with the increased cost of production said the Federation of Livestock Farmers Associations of Malaysia president Datuk Jeffrey Ng.

"If you ask me whether the increase is serious, it is not. It is a natural thing," he told *theSun* when contacted. Ng said public should also refrain from pointing finger at farmers, but instead understand the plight of the egg producers whenever there were any increase in the price of the products.

He said some farms were backed into a corner as they could not even afford to buy animal feed for their chicken. Ng added that smaller farms were facing the possibility of closing operation. "They (farms) will not be able to survive if prices are not revised. If every consumer expects for the price to always remain low, one day all the farms would have to be shut down," he said.

He also reminded consumers not to be panic with the increase and assured consumers there was not shortage of eggs in the market. Meanwhile, the Federation of Malaysian Consumers Associations deputy president Mohd Yusof Abdul Rahman said consumers could resort to other alternatives if they think any hike in the price of goods could hurt their pocket. "The government could also play a role in this issue in ensuring there is a balance in supply and demand.

Source: H. Jalil & H. Halan (September 6, 2017). Retrieved from <http://www.thesundaily.my/news/2017/09/07/hike-egg-price>.

Based on the passage above, answer the following questions:

- (a) Identify whether the passage above is related to microeconomics or macroeconomics topic. Justify your answer. (4 marks)

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- (b) State whether the following statement made by Datuk Jeffrey Ng is positive or normative.
- “Public should also refrain from pointing finger at farmers, but instead understand the plight of the egg producers...” (4 marks)
- (c) Explain the factor that caused the hike in egg price using a demand and supply diagram. (8 marks)
- (d) Suppose eggs are necessity food for Malaysians. Describe the effect of the hike in egg price on the egg producers’ revenue. (4 marks)
- [Total: 20 marks]**

### Question 2

- (a) Moonlight is a small coffee company that is considering entering a market dominated by Starbucks. Each company’s profit depends on whether Moonlight enters the market and whether Starbucks sets a high price or a low price. **Table 2** presents the payoff matrix for each decision of each company.

**Table 2**

		Starbucks	
		High Price	Low Price
Moonlight	Enter	Starbucks makes RM 3 million. Moonlight makes RM 2 million.	Starbucks makes RM 1 million. Moonlight loses RM 1 million.
	Don’t enter	Starbucks makes RM 7 million. Moonlight makes zero.	Starbucks makes RM 2 million. Moonlight makes zero.

Based on **Table 2**, answer the following questions:

- (i) Choose the dominant strategy for each company. (4 marks)
- (ii) Determine the Nash Equilibrium of **Table 2** with justification. (5 marks)

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- (b) Holly owns a quilt-making company with fixed costs of RM 200 and the following schedule for variable cost as presented in **Table 3**.

**Table 3**

Quantity of quilts sewn per month (units)	1	2	3	4	5	6
Variable costs (RM)	10	20	40	80	160	320

- (i) Calculate average fixed cost (AFC), average variable cost (AVC) and average total cost (ATC) for each quantity level. (9 marks)
- (ii) Based on part (b)(i), determine the efficient scale of the quilt company. (2 marks)
- [Total: 20 marks]

**Question 3**

- (a) **Table 4** presents the labour and output data per day for a pizza shop in Cyberjaya.

**Table 4**

Labour (units)	Output (units)
0	0
1	20
2	45
3	80
4	100
5	110

Based on **Table 4**, answer the following questions:

- (i) Calculate the marginal revenue product (MRP) for all labour units. Given the price of pizza is RM 10 per pizza. (5 marks)
- (ii) Suppose the market wage rate is RM 100 per day. Find the number of labour that would maximize the profit of the pizza shop with justification. (5 marks)
- (b) Suppose the President of Bikini Bottom proposed a new law aimed at improving the health of the residents: All Bikini Bottom residents are required to use pineapple in their food. Using diagrams, explain the effect of this new law on the market of pineapple, and market for pineapple workers. (10 marks)
- [Total: 20 marks]

**End of Questions**